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DMCS Replacement COTS Package Feasibility and Options

Presentation to SFA Management Council
January 18th, 2002

Agenda



Objective of Management Council Checkpoint

Recap

Options

Feasibility

Recommendations



Objective of Management Council Checkpoint

The checkpoint objective is to:

- Assess the options and feasibility for replacing the DMCS system
- Approve project approach and confirm release of remaining funds (\$1.3m) for work through end of March:
 - Conference Room Pilot
 - Detailed Cost/Benefit Analysis
 - Implementation Plan
 - Deal Structure

Recap

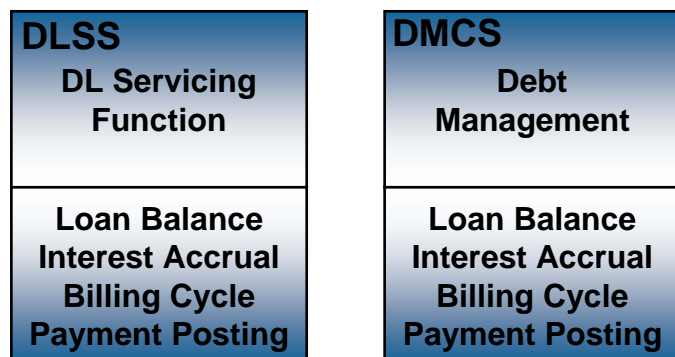


- Aging Mainframe system
 - 2000+ COBOL programs
 - IDMS Database
- Highly Complex
 - \$14.1 billion Portfolio, 4.5 million defaulted borrowers
 - 36 GA's, 13 PCA's, 3 Regional Offices, 2 call centers
 - TOP, FDP, AWG, Hearing, Dispute, Litigation, Refund
- Final contract extension expires 12/02
 - We have to take action!
- New technology enables best practices
 - Streamlined account assignment to Private Collection Agencies
 - Scenario-based collectability analysis

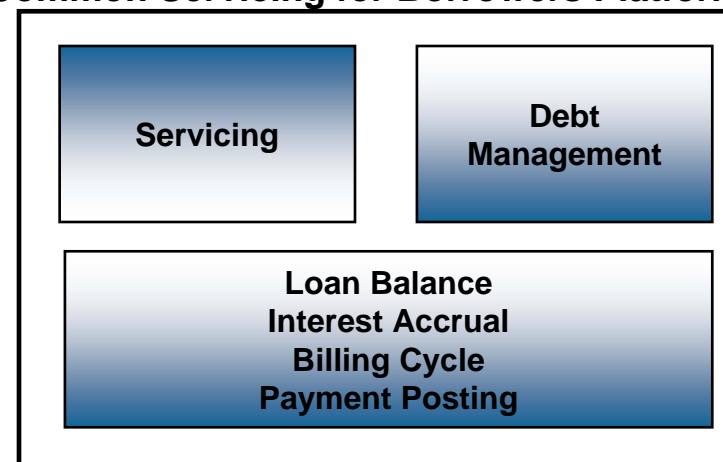


Solution Options

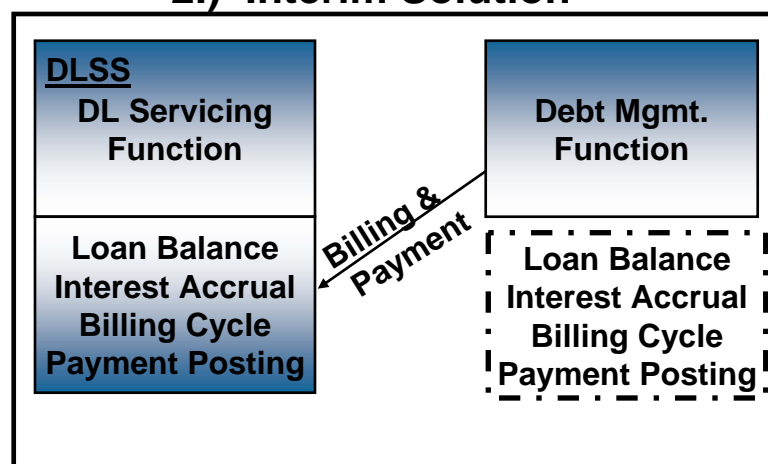
1.) Current Situation



3.) Future Solution – Common Servicing for Borrowers Platform



2.) Interim Solution





Options – COTS Packages

Two COTS solutions have emerged from the original 10 COTS packages considered. The factors considered included:

- Strength as a Default/Recovery Management product versus a Collections product
- Support for outsourced collection activity
- Ability to implement within the default portfolio in advance of servicing

Recovery Management System *By London Bridge*

- *Strong industry solution (70% of Debt Recovery Market)*
- *Proven COTS solution with best practices on debt recovery*
- *Strong commercial customer base but limited student loan experience*

Debt Management System *By Raytheon*

- *Deep SFA operational experience*
- *Business service fulfillment capability in addition to COTS solution*
- *Unproven COTS solution, core product scheduled for completion in June/July, first two customers live in October*



Feasibility - Cost Benefit Analysis

Initial high-level analysis indicates a potential for Share-in-Performance. Drivers for cost savings include reductions in SFA postage and future operation costs.

All Dollars are in Millions	FY01 Actual	FY02 Transition	FY03 Projection	FY04 Projection	FY05 Projection	FY06 Projection	FY07 Projection	Total (FY03 - FY07)
Baseline Costs	\$28.29	\$30.80	\$33.60	\$34.80	\$36.20	\$37.60	\$39.20	\$181.40
Raytheon Costs	\$17.66	\$19.62	\$21.58	\$22.66	\$23.80	\$24.99	\$26.23	\$119.26
VDC Costs	\$2.41	\$2.48	\$3.16	\$3.16	\$3.16	\$3.16	\$3.16	\$15.79
SFA Postage Costs	\$8.22	\$8.70	\$8.91	\$9.00	\$9.25	\$9.55	\$9.84	\$46.53
SFA Postage Savings	N/A	N/A	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00	\$20.00
Adjusted Baseline Costs	N/A	N/A	\$29.60	\$30.80	\$32.20	\$33.60	\$35.20	\$161.40
*Estimated Future Ops Costs	N/A	N/A	\$25 - 28	\$26 - 29	\$27 - 30	\$27 - 30	\$27 - 30	\$132 - 147
Possible Gross Savings	N/A	N/A	\$1.5 - 4.5	\$2.0 - 5.0	\$2.0 - 5.0	\$3.5 - 6.5	\$5.0 - 8.0	\$14 - 29

*Projected Design/Build/Deploy Costs	\$20.0 - 30.0
Possible Gross Savings Thru FY07	\$34.0 - 49.0
SFA Postage Savings	\$20.00
Reduced Ops Cost Savings	\$14.0 - 29.0
Possible Net Savings Thru FY07	\$4.0 - 29.0

* Both Implementation and Future Operations Costs are high level estimates and will be more clearly defined by the end of March 2002.



Observations / Recommendations

Observations

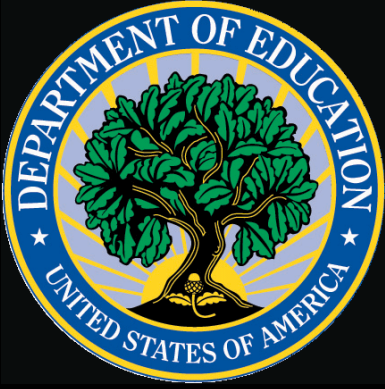
- A. No vendor / product currently provides the complete range of capabilities that Collections require
- B. Initial analysis indicates a potential for Share-in-Performance
- C. No established contract to ensure continuous business and systems operations
- D. Integration with Common Servicing for Borrowers as well as the Consistent Answers solution has not been finalized

Recommendations

- A. Conduct Conference Room Pilot with London Bridge product and perform due diligence with Raytheon product between now and March 30, 2002
- B. Continue to perform detailed cost / benefit analysis with both vendors to negotiate and structure Share-in-Performance deal
- C. Begin to source potential business and system operating partners
- D. Continue to integrate with Common Servicing for Borrowers and Consistent Answers solutions

Recommendation Results

- A. Validate product capabilities and total implementation costs and gain confidence in determining final solution
- B. Establish Share-in-Performance Deal structure
- C. Potential business and system operating partners selected
- D. Determine scope and implementation plan



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Appendices



Feasibility - Increased Collections

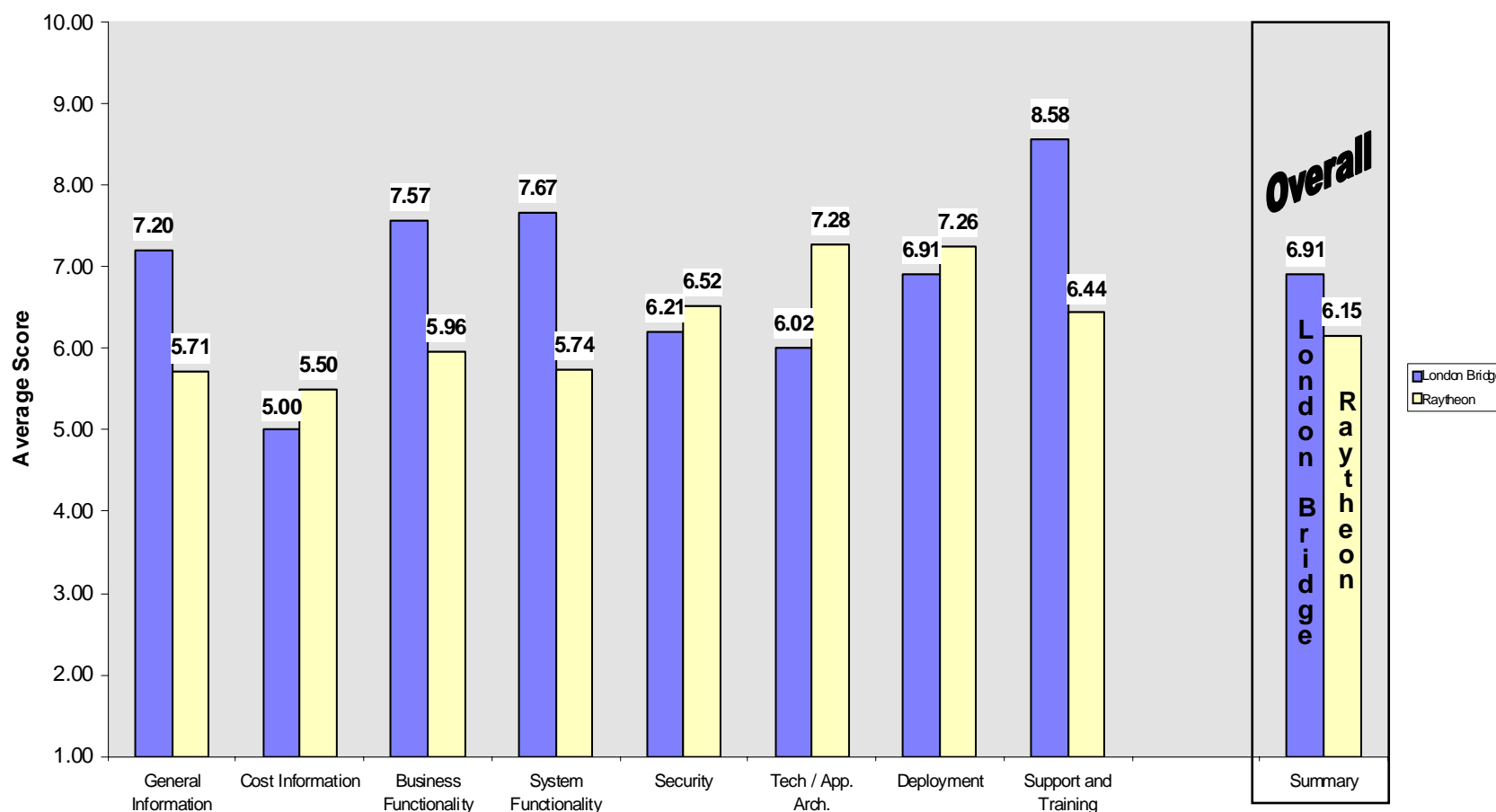
There is an opportunity to collect more money as the Direct Loan portfolio matures. Collections must position itself to take advantage of the changing portfolio composition.

Projected Direct Loan Recovery - Benefits to Treasury (in \$Millions)						
	FY01	FY02	FY03	FY04	FY05	FY06
Beginning DL Inventory Balance	\$1,234	\$2,404	\$3,657	\$4,645	\$5,424	\$6,183
Newly Defaulted DL	\$1,410	\$1,762	\$1,762	\$1,762	\$1,762	\$1,762
DL Recovery	\$338	\$649	\$987	\$1,254	\$1,464	\$1,683
Incremental Accelerated Cash Flow to Treasury		\$311	\$338	\$267	\$210	\$219



Results of COTS Evaluation

The two products have various strengths and weaknesses. London Bridge scored higher overall, specifically in meeting the business and system functionality requirements, while Raytheon received higher marks in technical architecture and deployment.





Results of COTS Evaluation – continued

#	Selection Criteria	Weighted Percentage	London Bridge Recovery Management System 6.1	Raytheon Debt Management System
I	General Information	0.1	7.2	5.71
II	Cost Information	0.15	5	5.5
III	Business Functionality	0.25	7.57	5.96
IV	System Functionality	0.15	7.67	5.74
V	Security	0.1	6.21	6.52
VI	Tech / App. Arch.	0.1	6.02	7.28
VII	Deployment	0.07	6.91	7.26
VIII	Support and Training	0.08	8.58	6.44
	Summary	100%	6.91	6.15

London Bridge - RMS 6.1

Rated high on:

- Business Functionality
- System Functionality

Vs.

Raytheon Systems - DMS

Rated high on:

- Technical Architecture
- Deployment